



TAX FACTS

From the
State of Hawaii, Department of Taxation

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REVISED FORM N-15: NONRESIDENT AND PART-YEAR RESIDENT RETURN

97-4

For taxable years beginning 1997, Form N-15 has been revised as a nonresident and part-year resident income tax return. This issue of *Tax Facts* is devoted to answering questions about the revised Form N-15.

1. Why was Form N-15 revised as a nonresident and part-year resident income tax return?

Effective for taxable years beginning after December 31, 1996, Act 281, Session Laws of Hawaii 1997 (Act 281), requires a nonresident and part-year resident to calculate Hawaii income taxes as if the nonresident and part-year resident were a Hawaii resident. To determine Hawaii tax liability, the tax on total taxable income (tax calculated as if the nonresident or part-year resident were a Hawaii resident) is multiplied by the ratio of Hawaii adjusted gross income to total adjusted gross income from all sources.

The purpose of this Act was to put nonresidents and part-year residents on parity with resident taxpayers with respect to allowable exemptions and deductions.

In prior years, Form N-15 was filed only by nonresident taxpayers. However, due to Act 281, nonresidents and part-year residents will calculate their Hawaii income taxes in the same manner. Accordingly, the 1997 Form N-15 was revised as a nonresident and part-year resident income tax return.

2. If I am a part-year resident for the 1997 tax year, can I file the 1997 Form N-12?

No. A part-year resident must file the 1997 Form N-15. Although Form N-12 was filed by part-year residents in prior years, Form N-12 can no longer be used to file part-year resident returns for taxable years 1997 and thereafter.

3. If I moved to Hawaii during 1997, or moved away from Hawaii during 1997, what form do I file?

You must file Form N-15. An individual who is taking up residence in Hawaii during the tax year or giving up residence in Hawaii during the tax year is considered a part-year resident.

4. When I file Form N-15, how will the Department know whether I am a nonresident or part-year resident?

At the top of Form N-15, you must check the applicable box to indicate whether you are a nonresident or part-year resident. If a box is not checked, your return may be processed incorrectly and may result in a delay. If you are a part-year resident, you also must fill in the period of your Hawaii residency on the line which begins "or other tax year beginning . . ." If the part-year resident box is checked and the line to indicate the taxpayer's tax year is not completed, any claims for the food tax credit or the credit for low-income household renters will be disallowed.

5. How does the revised Form N-15 work?

As in prior years, Form N-15 has two columns (Columns A and B) to report income and adjustments to income.

Report in Column A your total income (regardless of source) and adjustments to your total income as if you were a full-year Hawaii resident.

If you are a nonresident, report in Column B income derived only from Hawaii sources and the allowable adjustments to your Hawaii income.

If you are a part-year resident, report in Column B your total income (regardless of source) and adjustments to your total income during the period of residency, and income derived only from Hawaii sources and the allowable adjustments to your Hawaii income for the period of nonresidency.

Once a taxpayer's adjusted gross income (AGI) is determined, the computation to figure taxable income continues using total income and deduction amounts from Column A. Itemized deductions are calculated as if the taxpayer was a full-year resident.

To determine Hawaii tax liability, the tax on the taxable income amount is multiplied by the ratio of Hawaii AGI to total AGI from all sources.

6. In your answer to Question 5, you mentioned that nonresidents must report in Column B income derived only from Hawaii sources; and that part-year

residents must report in Column B, total income (regardless of source) during the period of residency, and income derived only from Hawaii sources for the period of nonresidency. How do I know whether income was derived from Hawaii sources?

In determining whether income has its source in Hawaii or outside Hawaii, the following rules should generally be applied:

- The source of income derived from real or tangible personal property is the situs of the property (place where the property is located or used).
- The source of income from the performance of personal services is the place where the services are performed.
- The source of income from carrying on a trade or business is the place where the trade or business is carried on.
- The source of income earned from intangible property is the place of the owner's domicile, unless the property has acquired a business situs in Hawaii.

7. Does Act 281 change the manner in which Hawaii-source income is determined?

No. The tax computation required by Act 281 does not change the manner in which Hawaii-source income is determined. The tax computation merely considers a nonresident or part-year resident's total economic position to determine the tax rate that should be applied to their taxable income. In calculating a nonresident or part-year resident's total economic position (income from all sources as if a Hawaii resident) amounts such as military wages, capital gains and losses, and net operating losses must be included in Column A.

8. I established residence in Hawaii on February 1, 1997. Prior to February 1, 1997, I was a resident of California and earned wages of \$15,000. Do I report this amount in Column B?

No. Wages earned outside Hawaii while a nonresident are considered income derived from out-of-state sources and should not be reported in Column B.

9. I gave up my Hawaii residency on April 18, 1997, and moved to New York. I did not close my personal bank account in Hawaii and earned interest of \$2,000 for the 1997 tax year. Do I report the entire \$2,000 in Column B?

No. The amount of personal interest income reported in Column B should include only the interest earned while you were a Hawaii resident. The source of interest income is generally the place of the taxpayer's domicile. Accordingly, the interest earned on

the personal Hawaii bank account during the period of nonresidency is considered to be income derived from out-of-state sources and should not be reported in Column B.

10. In your answer to Question 9, you stated that the amount of personal interest income to be reported in Column B should include only the interest earned while I was a Hawaii resident. How do I determine the amount of interest income that was earned while I was a Hawaii resident?

If you cannot specifically determine the amount of interest income earned while you were a Hawaii resident, you may calculate that amount based upon a ratio of the number of days of residence in Hawaii to the total number of days in the taxable year. In Question 9, the amount of interest income to be reported in Column B would be \$586 ($\$2,000 \times 107/365 = \586.30 , rounded to \$586).

11. I was a nonresident for all of 1997. On June 29, 1997, I sold real property held for investment in Hawaii and recognized a gain of \$20,000. Do I report this amount in Column B?

Yes. A gain on the sale of real property located in Hawaii is considered income derived from Hawaii sources and must be reported in Column B.

12. I established residence in Hawaii on December 1, 1997. Prior to December 1, 1997, I was a resident of Arizona. I own rental property located in Arizona and continued to rent out the property after I left Arizona. I received net rental income of \$18,000 for the 1997 tax year. How do I determine the amount of the net rental income to report in Column B?

Rental income derived from rental property located outside Hawaii is considered to be income derived from out-of-state sources. Accordingly, the amount of the net rental income to be reported in Column B should only include the net rental income derived while you were a Hawaii resident. If you cannot specifically determine the amount of net rental income derived while you were a Hawaii resident, you may calculate that amount based upon a ratio of the number of days of residence in Hawaii to the total number of days in the taxable year. The amount of the net rental income to be reported in Column B is \$1,529 ($\$18,000 \times 31/365 = \$1,528.77$, rounded to \$1,529).

13. On the 1997 Form N-15, page 2 starts with the adjusted gross income from Column A (Total income). On the 1996 Form N-15, page 2 started with the adjusted gross income from Column B (Hawaii income). Why does the 1997 Form N-15 use

the adjusted gross income from Column A instead of the adjusted gross income from Column B?

Act 281 requires a nonresident and part-year resident to calculate Hawaii income taxes as if they were a Hawaii resident. The computation to figure taxable income as if the nonresident or part-year resident were a Hawaii resident must, therefore, use the amounts reported in Column A (total income (regardless of source) and adjustments to their total income as if they were a full-year Hawaii resident).

14. In your answer to Question 5, you stated that itemized deductions are calculated as if the taxpayer was a full-year resident. If I am a nonresident and will be filing Form N-15 for 1997, does this mean that I can deduct the mortgage interest and real property taxes that I paid on my home located in Colorado?

Yes. The mortgage interest and real property taxes paid on your Colorado home may be deducted in full on your 1997 Form N-15. Prior to Act 281, nonresidents and part-year residents (for the period of nonresidency) could not claim any itemized deductions which were tied to a specific investment, property, or activity carried on outside Hawaii; or which resulted in income which was not subject to taxation by Hawaii.

15. I am a nonresident and filed Form N-15 for 1996. On the 1997 Form N-15, I noticed that there are more tax credits available than before. Can I claim these tax credits?

Tax credits that only may be claimed by **resident** taxpayers appear on the 1997 Form N-15 since the form is now used by part-year residents. Please read the instructions for each tax credit to ensure that you claim only the tax credits to which you are entitled.

In general, the tax credits on Schedule X (food tax credit, credit for low-income household renters, credit for child and dependent care expenses, and medical services excise tax credit), and the tax credit for income tax paid to another state or to a foreign country may **not** be claimed by nonresident taxpayers.

Tax credits that may be claimed by nonresident taxpayers include the credit for child passenger restraint system(s), and business tax credits such as the capital goods excise tax credit, fuel tax credit for commercial fishers, motion picture and film production tax credit, hotel remodeling tax credit, enterprise zone tax credit, and the credit for employment of vocational rehabilitation referrals.

Certain tax credits which are available only to resident taxpayers may be claimed by nonresident taxpayers if the nonresident taxpayer received a proration of the tax credit from a Hawaii partnership, S corporation, trust, or estate. These tax credits include

the energy conservation tax credit and the low-income housing tax credit.

16. Do Schedules A, B, and D need to be attached to the Form N-15?

No. Schedules A, B, and D have been replaced with worksheets in the instruction booklet. In prior years, Schedules B and D were used to compute amounts to enter in Column B (Hawaii income). The worksheets which replaced Schedules B and D, however, are used to compute amounts to enter in Column A (total income).

17. In your answer to Question 16, you mentioned that there are worksheets in the instruction booklet. Does the Department want me to submit them with my Form N-15?

No, you don't need to submit your worksheets. We usually won't need them because we can verify your math by computer.

But please keep the worksheets that you use. If we have a question on something that you put down, we might ask you for the worksheets to show how you arrived at a particular figure.

18. Should I attach a copy of my federal income tax return to Form N-15?

Yes. We do require that you attach a complete copy of your federal income tax return to Form N-15.

19. How can I get Form N-15?

If you filed Form N-15 for the 1996 tax year and indicated on the form that you would like the Department to mail you a packet of 1997 forms, you should receive your 1997 Form N-15 packet in the mail by mid-January 1998.

All Hawaii tax forms and instructions may be obtained from any district tax office, or by calling the Department's forms request code-a-phone to request that the forms be mailed or faxed to you. Most forms, including Form N-15, also can be downloaded and printed from the Department's site on the Internet. See the bottom of page 4 for the location of your district tax office and the phone numbers for requesting the tax forms you need, as well as the Department's website address.

20. I was a part-year resident for the 1996 tax year and filed Form N-12. Which packet of forms will be mailed to me?

If you filed Form N-12 for 1996, you will receive the Form N-11/N-12 packet (or the postcard with the pre-addressed mailing label) in the mail by mid-January 1998. If you need the Form N-15 packet for 1997, you may obtain the Form N-15 packet as described in the

answer to question 19 above.

21. What should I do if I am not able to file my 1997 Form N-15 by the due date (April 20, 1998)?

If you are not able to file your 1997 Form N-15 by April 20, 1998, you may request an automatic 4-month extension of time to file your Form N-15. To request the automatic extension, you must file Hawaii Form N-101A, Application for Automatic Extension of Time to File Hawaii Individual Income Tax Return. Federal Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return, may be used in lieu of Form N-101A if it is completed using amounts for Hawaii income tax purposes.

Remember, an extension of time to file is not an extension of time to pay.

22. After filing Form N-15 for 1997, I realized that I made a mistake on the form. What should I do?

You can correct a mistake by filing an amended return. You can do this by picking up a blank 1997 Form N-15, writing "AMENDED" in the upper left corner, and filling in the return with all of the correct information. Attach a statement to the amended return explaining the changes to income, deductions, and credits.

You may file an amended return on Form N-188X, Amended Individual Income Tax Return, to amend a Form N-15 filed for taxable years **prior** to 1997. Form N-188X may **not** be used to amend a Form N-15 filed for taxable years 1997 and thereafter.

See the Form N-15 instruction booklet for more detailed instructions.

23. If I am a nonresident shareholder of an S corporation, partner of a partnership, or member of a limited liability company or limited liability partnership, and receive income derived from Hawaii sources through that business entity, can I still elect to have the entity file a composite tax return on my behalf if that is my only Hawaii source income?

Yes. The entity can still file a composite return and make composite payments of tax on your behalf in accordance with the tax computation required by Act 281.

The Department, however, recognizes that Act 281 may pose administrative difficulties for S corporations, partnerships, limited liability companies, and limited liability partnerships, because in order to file a complete return, nonresident and part-year resident taxpayers will have to disclose information which they did not need to disclose in prior years such as income derived from non-entity sources and claims for non-entity deductions. Therefore, as a convenience to affected taxpayers, the Department will allow S corporations, partnerships, limited liability companies, and limited liability partnerships to elect to file composite returns on behalf of participating shareholders, partners, or members, and make composite payments for the participant's distributive share at the highest marginal tax rate applicable to that class of taxpayer, whether an individual or corporate taxpayer. No deductions shall be allowed except those necessary to determine each participant's distributive share of the entity's income, and no credits shall be allowed except those directly attributable to the entity.

More information on the filing of composite tax returns will be provided in a forthcoming Department of Taxation Announcement.

STATE DISTRICT TAX OFFICE ADDRESSES & TELEPHONE NUMBERS

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